

# Economics

## Internal Assessment Individual Commentary Coversheet

Commentary 1	Criterion A: Diagrams	Criterion B: Terminology	Criterion C: Application	Criterion D: Analysis	Criterion E: Evaluation	Total marks	Nature of the article
Marks awarded for each criterion available	3 /3	2 /2	2 /2	2 /3	3 /4	12 /14	OK.
Comments	<p>Diagrams and terms are applied appropriately and diagrams are well explained.</p> <p>Conclude could have analysed the actual govt policy in more detail but taxation, as an alternative policy, is still relevant.</p> <p>Some sound judgments made.</p> <p>Overall comments A standard market failure commentary with some good stakeholder analysis.</p>						

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# India urged to follow Australian lead on cigarette plain-packaging

AM India correspondent Stephanie March  
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**Anti-tobacco campaigners in India are calling for the country to follow Australia's lead on plain packaging for cigarettes.**

India is the second largest tobacco producing nation in the world and 1 million Indians die each year from cancer caused by smoking and chewing tobacco.

After lengthy court battles the Indian government has now introduced mandatory health warnings on tobacco packets, but health advocates say they're weak.

Dr Ranga Rao, an Oncologist working in Delhi, says he sees some alarming cases.

"I remember a 21-year-old young girl who has been smoking from the age of 13 and she has grown up in the atmosphere of smoking - her parents used to smoke," he said.

**VIDEO:** Plain-packaging legislation faces opposition from Delhi politicians (Newsline)

"So she picked up the smoking and she died of lung cancer at the age of 22 and a half.

"Fifty per cent of the people pick up the habit at the age of 12 to 15 years."

One third of Indians use tobacco - about 400 million people.

It's estimated the cost of treating tobacco related illness is

more than \$US5 billion a year.

**AUDIO:** Indian government introduces health warnings on tobacco products (AM)

Cigarettes, chewing tobacco and beedis, known as the poor man's cigarette are all cheap and readily available to people of all ages.

Dr Monika Arora from the Public Health Foundation of India has done a survey of tobacco users and says the results are worrying.

She says despite the health warnings, many smokers - including children - still find the cigarette packaging appealing.

"They did say that the packs were very, very attractive for them, to the extent that when they looked at one of the pack, they were not sure if it is a candy or a cigarette pack," she said.

An opposition MP has introduced a private members bill into the Indian parliament calling for logos and company branding to be totally removed from tobacco products.

Dr Arora says it's based on plain packaging legislation passed in Australia last year.





**PHOTO:** Cigarettes in Australia are sold in unbranded packets that feature a graphic health warning. (AFP: William West)

"For Australia it was a big battle because they didn't have a precedent to follow but for any country that is following, now it's easier," she said.

An Australian study has shown plain packaging makes smokers think about quitting more often.

The Indian legislation is yet to be debated in parliament and supporters of it are predicting staunch opposition from the tobacco industry.

Dr Arora says some politicians are also likely to oppose the changes.

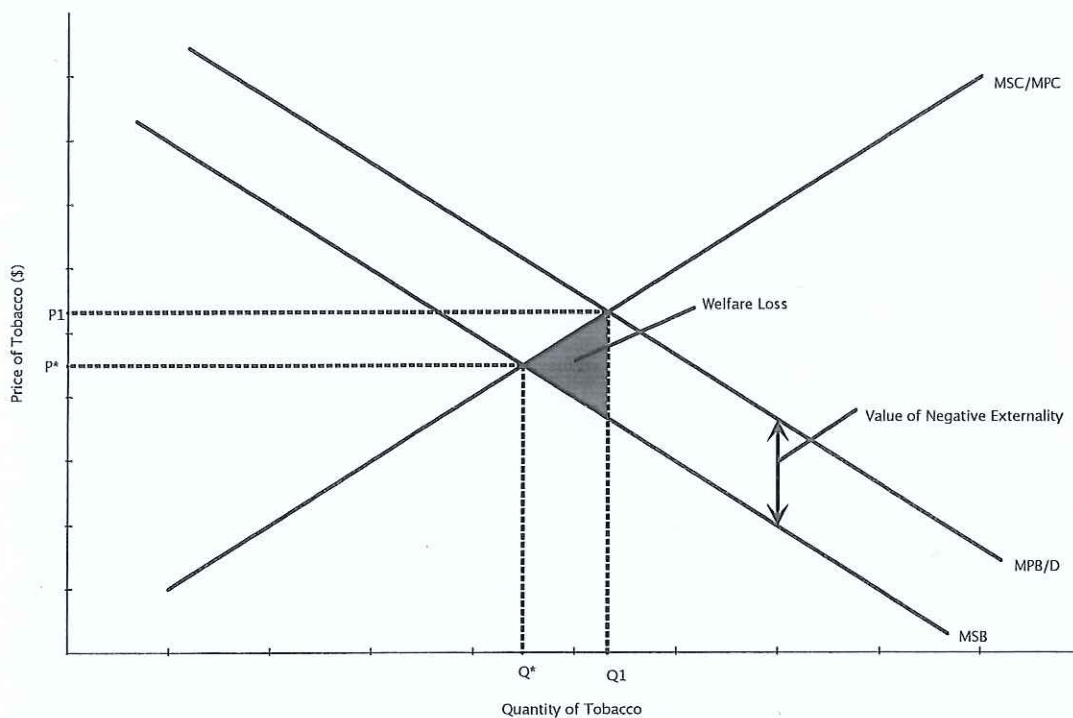
"They have constituencies which are predominantly rolling beedis, so there is an interest why they should protect beedis, why they should protect tobacco products, smoking products," she said..

The ABC asked India's two biggest tobacco companies - Godfrey Philips, which is part owned by Phillip Morris and the Indian Tobacco Company - for comment on the legislation.

Neither company responded to the request.

The Australian government has taken measures to reduce the effect of tobacco on its country. By implementing strict packaging rules on cigarettes and imposing high taxes the Australian government has tried to correct market failure, which is the inefficient allocation of resources within a market. Other countries are now viewing similar options after the success of the Australian government has had.

This is due to tobacco being a demerit good, a good that is undesirable for society and overprovided by market forces. Due to the effects of tobacco on health care systems and other associated costs it has been deemed to result in a negative externality of consumption, a cost that spills over from the consumer/producer of the good to a third party. The Indian government has a serious problem with the consumption of tobacco with over 400 million Indians consuming it and this is resulting in a cost of \$5 billion a year in the cost of treating tobacco related illness. Which results in an opportunity cost for the government, as money must be spent on preventable healthcare costs.



In the market for cigarettes consumers will maximize their private benefit and consumer at the level where  $MPC = MPB$  and will ignore the negative externality produced. This results in the over consumption of tobacco at  $Q_1$  and  $P_1$ . The social optimum output is at  $Q^*$  and since  $Q_1$  is greater than  $Q^*$  overconsumption occurs. Due to this  $MSC$  is greater than  $MSB$  at  $Q_1$  and as a result we have market failure.

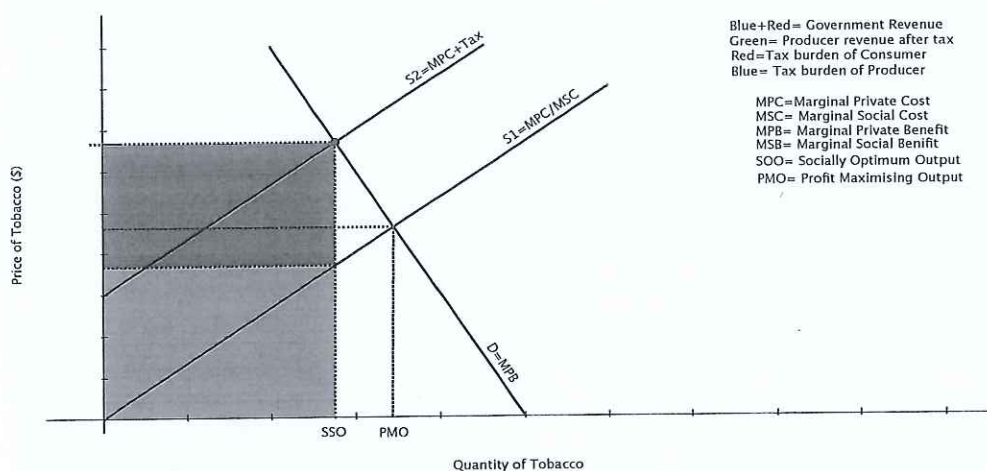
India has a public health care system, which is funded through public taxes. This results in taxes being spent to treat tobacco related illness, therefore the negative externality could be calculated to be \$5 billion.

The Indian government has a number of options to combat this negative externality of consumption. First they can follow in the footsteps of the



Australian government by removing advertising for cigarettes and restricting packaging. This is important in India as many consumers particularly children said that advertising was very attractive and looked like candy. By removing this advertising and replacing it with plain boxes or even adding gruesome pictures and health warnings would deter consumers especially children and would cause a shift in MPB for the product and create a smaller gap between the PMO and SOO values thus reducing the negative externality. Combined with this the government would be wise to invest in educating the younger generation about the dangers of tobacco use as it is when children are around the age of 12 that they begin to use tobacco in India.

Alternatively the government could look to reduce the negative externality of consumption through taxation. This would have a two-fold approach.



The first effect is that it would be creating revenue by the government that could be used to reduce the burden on tax payers to fund the medical costs of tobacco users. As well as this the revenue could be invested into other parts of the economies infrastructure to reduce tobacco use such education of the dangers of tobacco.

The second effect would be to reduce demand for the product by increasing the price. Due to the low income of many tobacco users in India this may help to reduce the difference between PMO and SOO. This is due to the demand for tobacco being inelastic which means that the majority of the tax burden will fall on consumers in comparison to the producers of tobacco (shown by the red area on the graph) because the tobacco companies want to maintain their abnormal profits so they only take a small percentage of the tax burden (shown in the blue area on the graph). Due to many of the poorest Indians chewing tobacco rather than smoking cigarettes the tax would have to be well implemented to stop a parallel market being created through the selling of loose tobacco directly from farmers. It is also important to remember that due to the addictive qualities of tobacco and the demand being inelastic the tax is very unlikely to resolve market failure and should therefore be used in partnership with other policies.

The government must be careful if they plan to levy a tax on tobacco though as the two main tobacco companies in India Godfrey Philips and The Indian Tobacco Company employ many Indians. Both companies have connections with the government and are very large corporations within India who will fight heavily against if a tax is proposed.